M&T Bank

One M&T Plaza, Buffalo, NY 14203
Treasury Division

April 26, 2012

By Electronic Mail
Board of Governors of the Federal Reserve System
20th Street and Constitutional Avenue, NW
Washington, DC 20551
Attention: Jennifer J. Johnson, Secretary
Docket No. 1438; RIN 7100-AD-86

Re: Enhanced Prudential Standards and Early Remediation Regulations under Dodd-Frank 165/166

Ladies and Gentlemen:

M&T Bank Corporation ("M&T" or "the Bank") would like to thank the Board of Governors of the Federal Reserve System ("the Board") for the opportunity to comment on the proposed rule governing enhanced liquidity management standards under section 165(b)(1)(A)(ii) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.[1]

M&T supports the actions the Board is taking to enhance the regulatory standards of liquidity management within the financial industry and commends the Board for recognizing that rules governing a diverse banking sector should be commensurate with a "covered company's capital structure, risk profile, complexity, activities, size, and other appropriate risk related factors."[2]

Background

M&T (NYSE Symbol MTB) is a bank and financial holding company headquartered in Buffalo, New York. M&T is committed to providing traditional banking services – deposits, loans, and trust and asset management services – to households and to businesses of all sizes (primarily small and middle-market nonfinancial firms). With assets of approximately $78 billion as of December 31, 2011, M&T ranked as the 29th largest U.S. bank holding company ("BHC")[3] and represented only 0.5% of the total assets for the largest 50 BHCs in the country. Comparatively, the top four BHCs each have over $1 trillion in assets and comprise 51.4% of the total domestic banking system, 89% when the top twenty BHCs are considered. In contrast to the larger and more interconnected BHCs, M&T does not pose a systemic risk to the financial system.

[1] As such proposed rule is set forth in 77 Fed. Reg. 594 (Jan. 5, 2012); referred to herein as the "Proposed Rule".
[2] Proposed Rule, 77 Fed. Reg. at 605.
[3] As defined on the Federal Financial Institutions Examination Council ("FFIEC") website www.ffiec.gov /nicpubweb /nicweb/ top50form.aspx

M&T's performance and actions through the financial crisis set it apart from nearly all other top 50 BHCs. Since the beginning of the financial crisis, M&T reported profitable earnings each quarter, a designation only a handful of other BHCs are able to claim. M&T also generated sufficient capital through operations to fund loan growth and acquire troubled depository institutions.

Comment on the Board's Approach to Enhanced Liquidity Standards

The Board recognizes that a covered company's liquidity management process should be commensurate to the risk the institution poses to the financial system. The Proposed Rule states, in more than fifteen various sections, language that effectively conveys that a firm's management of liquidity should be tailored based on its "capital structure, risk profile, complexity, activities, and other appropriate risk related factors." Further, the Board states its intention to "institute a liquidity regime for covered companies through a multi-stage process," with the Proposed Rule comprising the first stage under which "covered companies would be subject to enhanced liquidity risk management standards."[4] We support the Board's customized approach contemplated for the first stage in the Proposed Rule but are concerned that the contemplated second stage (which would require covered companies "to satisfy specific quantitative liquidity requirements"[5]) ultimately effectuates a one-size-fits-all approach to managing liquidity risk. A formulaic framework to liquidity management is inappropriate given the different business models and level of interconnectedness for the BHCs within the banking industry.

In supporting a tailored approach, consider the following: Multiple industry presentations and internal calculations reveal that the largest U.S. BHCs already meet the proposed quantitative metric (Basel III's Liquidity Coverage Ratio) referenced in the Proposed Rule's discussion of the second stage, while commercial banks fall significantly short. This result makes intuitive sense as the largest BHC business models are highly interconnected in the financial markets and pose much greater systemic risk. These firms' liquidity risk management processes *already* account for the additional risk by holding greater amounts of on-balance sheet liquidity. Requiring all BHCs with greater than $50 billion in assets to meet the same quantitative criteria seems inappropriate given the risk differentiation within the group. Perhaps an institutions' business model would be a better gauge of interconnectedness and systemic risk, rather than asset size. Requiring a community-based bank like M&T to follow the same regulatory criteria as a money center bank, a custody bank, or a broker/dealer seems to over-reach that which the Dodd-Frank Act intends to address. The Proposed Rule suggests that quantitative requirements may not be appropriate for all covered companies by stating that the second stage may only apply to "a subset of covered companies."[6] M&T supports this notion

[4] Proposed Rule, 77 Fed. Reg. at 604.
[5] *Id.* at 605.
[6] *Id.*

and believes the formulaic requirements should only apply to BHCs with the greatest "systemic footprint(s)."

Specific Comments on Secured Borrowing Capacity and the Liquidity Buffer

I. Secured capacity in a 30 day stress

M&T, and many of our peers, allocate significant resources to maintain secured borrowing capacity by pledging assets to various lenders. Specifically, the Federal Home Loan Bank ("FHLB") system provides the banking industry with a valuable source of secured funding during normal operating environments *and in times of financial stress*, while the Federal Reserve's Discount Window ("DW"), by design, is a viable short-term backup source of liquidity for individual depository institutions. Despite this, the proposed rules do not allow for these significant funding sources to be used in stress scenarios of less than 1 month. To manage liquidity risk under all stress scenarios and time frames, the Board should consider FHLB and DW capacity as available funding sources.

A. **FHLB Capacity:** Secured capacity within the FHLB system is a key element in managing liquidity risk and can be accessed within a 30 day stress event. FHLB borrowings serve as a stable and cost effective source of term funding for banks in both normal and stressful times. The financial crisis illustrated this point, as the FHLB system increased lending to members by over 50%, nearly $375 billion from Q2 2007 to Q3 2008.[7] Ignoring the function of the FHLB system in our industry removes a proven source of liquidity for the regional banking business model. We recommend the inclusion of FHLB capacity within the 30 day stress scenarios using reasonable assumptions of timing, size, and pricing of borrowings. For example, in a stress scenario, it may be appropriate to apply larger collateral haircuts (reduce capacity) and increase the rate charged on the funding.

B. **Discount Window:** The prohibition of the DW as a source of funds to cover a short-term stress event contradicts its stated role. The Federal Reserve's Purposes and Functions publication states, "The discount window can also, at times, serve as a useful tool for promoting financial stability by providing temporary funding to depository institutions that are having significant financial difficulties."[8] Excluding a bank's ability to access the DW limits a bank's potential options in times of stress. M&T recognizes that the DW

[7] *The Federal Home Loan Banks*, white paper available at http://www.fhlbanks.com/assets/pdfs/sidebar /FHLBanksWhitePaper.pdf
[8] *The Federal Reserve System: Purposes and Functions*, available at http://www.federalreserve.gov/pf/pdf /pf_complete.pdf

is not the ultimate solution, but a tool that should be available to "bridge" an institution to a longer-term solution such as asset sales, repos, or FHLB advances.
In contrast to the prohibition of the DW for the purposes of stress testing, language provided under the Contingency Funding Plan ("CFP") section (§252.58[9]) suggests DW capacity can be incorporated into a bank's CFP. M&T concurs with this approach and recommends allowing covered companies to include DW capacity within the 30 day stress scenarios and contingency planning as a source of limited short-term financing.

II. Liquidity Buffer

Consistent with the theme that an institution's liquidity management process should be tailored based on the firm's capital structure, risk profile, complexity, activities, and other appropriate risk related factors, the Liquidity Buffer (§252.57[10]) should also retain this level of customization.

A. **Liquid Asset Composition:** The qualification of an asset to be considered "highly liquid" (§252.57) should be broader than the examples given in the Proposed Rule to better meet the diversification requirement and avoid an unintended consequence described below. The Proposed Rule states that highly liquid assets should have low credit risk (low risk of default) and low market risk (little or no price volatility). The solution to this issue appears in a seemingly contradictory statement in the Proposed Rule acknowledging the ability to apply discounts to fair market value (haircuts) to reflect credit risk and market volatility. M&T would propose a solution based on the Federal Reserve's Discount Window Collateral Margin Table for securities. The collateral accepted at the DW should be considered highly liquid after the application of an appropriate margin for credit and duration characteristics. A potential unintended consequence of excluding longer-duration securities may be increased interest rate risk exposure to covered companies. For example, many regional banks are exposed to declining interest rates as the predominately floating-rate loan portfolio re-prices more quickly than the deposit portfolio. To mitigate this risk, banks may purchase medium-long duration investment securities. If the final rule prohibits longer-duration securities, banks may be forced to accept exposures to interest rate movements that have historically been managed.
Utilizing the approach above would also allow for the assets in the liquidity buffer to be sufficiently diversified. Securities referenced in the Proposed Rule as meeting the definition of highly liquid assets – securities issued by the U.S. government, a U.S.

[9] *Id.* at 648.
[10] *Id.*

government agency, or a U.S. government-sponsored entity – alone may not meet the diversification requirement.

B. **Sizing a Buffer:** The Proposed Rule requires covered banks to hold a 1:1 liquidity buffer for 30 days under the *full* range of liquidity stress scenarios incorporated into its stress testing. Covered companies concerned about meeting this requirement may have a tendency to create stress scenarios without the appropriate level of severity; forgoing the informative value of understanding what events would drive a firm into insolvency. M&T recommends allowing the covered company's Board or designated risk committee to actively manage the size of its liquid asset buffer based on the stress scenarios. As correctly noted in the Proposed Rule, inadequate liquidity can endanger a company's ability to meet contractual obligations, while excessive liquidity can slowly erode profitability potentially leading to failure. A requirement to hold a liquidity buffer to cover ***all*** potential stress scenarios may represent an example of the latter.

Closing Comments

M&T supports the Board's tailored approach to liquidity management based on a "covered company's capital structure, risk profile, complexity, activities, size, and other appropriate risk related factors".[11] M&T supports more rigorous liquidity regulations but opposes a one-size-fits-all approach that is contemplated in the second stage discussed in the Proposed Rule.

Should you or a member of your staff find it helpful to discuss in greater detail any of the points in this letter, please do not hesitate to contact Doug Sheline at dsheline@mtb.com or by phone at (716) 842-5373.

We would like to thank the Board for the opportunity to comment on the proposed liquidity rules.

Sincerely,

D. Scott N. Warman
Executive Vice President and Treasurer
M&T Bank Corporation

[11] *Id.* at 605.